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## **9 CAPITAL ASSETS ACCOUNTING AND REPORTING**

### **9.1 Capital Asset Reporting and Accounting Overview**

This section defines OSRAP's policies and procedures for reporting and accounting for capital assets including capitalization and depreciation requirements.

The Office of Statewide Reporting and Accounting Policy will implement the Governmental Accounting Standards Board's Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" for the fiscal year 2002 Comprehensive Annual Financial Report (CAFR) including the requirement to report capital assets (including infrastructure assets) and depreciation (including governmental funds assets) in the CAFR in the new government-wide financial statements.

GASB 34 states that capital assets should be reported at historical cost. The cost of a capital asset should include capitalized interest and any charges necessary to put the asset into place. Donated capital assets should be reported at their estimated fair value at the time of acquisition. Capital assets include, but are not limited to, land, land improvements, buildings, equipment, furniture and fixtures, historical treasures, infrastructure, vehicles, and all other tangible or intangible assets that are used in operations that have initial useful lives beyond a single reporting period. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated.

Capital assets that are being or have been depreciated should be reported net of accumulated depreciation in the Statement of Net Assets. Accumulated depreciation may be reported on the face of the Statement of Net Assets or disclosed in the notes. Capital assets not being depreciated, such as land, should be reported separately if there is a significant amount of these assets. Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible, such as land, land improvements, and certain historical treasures. Depreciation expense should be reported in the Statement of Activities. This reporting requirement will be on the government-wide statements and those entities that are business type activities (BTA's).

The preferable method of depreciation is the straight line method. This method is the simplest to use and the most systematic and rational. The estimated useful lives as suggested by the Internal Revenue Service is the most widely used, therefore, Louisiana will adopt them in determining the useful lives of its capital assets. Estimated useful lives on infrastructure and buildings has been set as 40 years.

A chart using a broad class of assets and their related estimated useful lives has been developed. Some of the major classes are land, land improvements, buildings, equipment, furniture and fixtures,

vehicles and infrastructure.

### 9.1.1 Guide For Capitalization and Depreciation of Capital Assets

The Office of Statewide Reporting and Accounting Policy will implement the Governmental Accounting Standards Board's Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" for the fiscal year 2002 Comprehensive Annual Financial Report (CAFR) including requirement to report capital assets (including infrastructure assets) and depreciation (including governmental funds assets) in the CAFR in the new government-wide financial statements.

To assist the Office of Statewide Reporting and Accounting Policy in preparing for this major change, it will be important for each entity to be aware of the requirements and policies that have been set forth in this subject area. To assist entities in doing this, the Office of Statewide Reporting and Accounting Policy developed a guide for capitalization and depreciation of capital assets that establishes these requirements and policies. One of the policies is setting the capitalization threshold for depreciating movable property at \$5,000.00. This policy will require all movable property acquisitions over \$5,000.00 to be capitalized and depreciated instead of expensed in their budget categories.

For those agencies budgeted in the General Appropriations Act and who use the movable property inventory system under the Louisiana Property Assistance Agency (LPAA), the OSRAP will centrally compile the data and calculate the depreciation and accumulated depreciation amounts required for GASB 34 reporting using the straight line method. OSRAP will do the same thing for those buildings entered into the State Land and Building System (SLABS). All buildings owned by the state of Louisiana are included in this system. Agencies budgeted in the General Appropriations Act who use LPAA and SLABS will need only reflect the capitalization on their AFR. Instructions for this will be included in a June 30, 2002 edition of the AFR packet. Quite simply, for those agencies described in this paragraph, you will need only to reflect the capitalization of the movable property (not buildings) in the AFR by crediting expenditures and debiting movable property. OSRAP will also expand the chart of accounts so agencies may code directly those acquisitions which will be capitalized and those which will be expensed.

Entities not budgeted in the General Appropriations Act will have to capitalize and depreciate fixed assets using the straight-line method of depreciation and follow the policies outlined in the guide. The guide includes capital asset categories and descriptions, definitions, capitalization threshold levels, useful lives, and the chosen method of depreciation. Your responsibility for this reporting requirement is to follow the policies in the guide, and to report capital assets and the associated depreciation and accumulated depreciation in accordance with these policies.

**Guide for Capitalization and Depreciation of Capital Assets****9.1.1.1 Background**

The following information is provided as guidance for the capitalization and depreciation of capital assets to comply with the requirements of GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This new statement requires reporting of capital assets and depreciation in the government-wide financial statements. This guide includes capital assets categories and descriptions, definitions, capitalization threshold levels, useful lives, and the chosen method of depreciation and is only intended to provide some high level guidance and awareness of the decisions that have been made on these topics. More details on specific procedures and instructions will be provided to the appropriate entities at a later date.

GASB 34 states that capital assets should be reported at historical cost. The cost of a capital asset should include any charges necessary to put the asset into place. Donated capital assets should be reported at their estimated fair value at the date of donation. Capital assets include moveable property (furniture & fixtures, machinery & equipment, automobiles, etc.), land, land improvements, buildings, building improvements, leasehold improvements, infrastructure, historical treasures & works of art, and all other tangible or intangible assets that are used in operations that have initial useful lives beyond a single reporting period.

**9.1.1.2 Quick Facts**

1. Capitalization threshold levels and useful lives for capital assets are as follows:

<b>Capital Asset</b>	<b>Threshold</b>	<b>Useful Life</b>
Movable Property (not including computer software)	\$5,000	Varies – see table
Computer Software (not including internally developed software)	\$1,000,000	3 years
Internally Developed Software (Colleges & Universities only)	\$1,000,000	3 years
Buildings & Improvements	\$100,000	40 Years
Leasehold Improvements	\$100,000	< of 20 or 40 years or lease term

Land and Nondepreciable Land Improvements	N/A - capitalize all	No useful life assigned for inexhaustible assets
Depreciable Land Improvements	\$100,000	20 Years
Infrastructure	\$3,000,000	40 Years (preliminary)
Historical Treasures & Works of Art	N/A	No useful life – inexhaustible

2. The straight-line depreciation method will be used for depreciation of all depreciable capital assets.
3. A full year of depreciation is taken in the year assets are placed into service, while none is taken in the year the asset is disposed of.
4. No salvage value will be included in the depreciation calculation.

### 9.1.1.3 Identifying the different categories and classes of capital assets

#### 1. Movable Property

**Movable property** consists of those capital assets that are not fixed or stationary in nature. They are those assets that are not land, land improvements, buildings, building improvements, or infrastructure. In general, movable property includes furniture & fixtures, machinery and equipment, and automobiles. For more detailed examples of movable property, see the table of capital assets and useful lives in Section 3 below.

#### 2. Internally Developed Computer Software For Internal Use (Colleges & Universities Only)

**Internally Developed Computer Software for Internal Use** must have the following characteristics:

- The software is developed internally or modified solely to meet the entity's internal needs.
- During the software's development or modification, no substantive plan exists or is being developed to market it externally.

Except for colleges and universities that are required by NACUBO to capitalize internally developed software for internal use (NACUBO Advisory Report 99-7), the state of Louisiana will not capitalize internally developed software for internal use. Following NACUBO's recommendation, colleges and universities are to follow AICPA Statement of Position 98-1 (SOP 98-1) "Accounting for Costs of Computer Software Developed or Obtained for Internal Use" which provides guidance for capitalization of the costs associated with the internal development of computer software. To identify which costs would be capitalized in the process of internally developing software, it is necessary to identify three stages of software development discussed in SOP 98-1. These three

stages are the preliminary project stage, the application development stage, and the post-implementation & operation stage. Costs associated with internally developed software that are to be capitalized include those incurred during the application development stage only. Activities that occur during this stage include design, configuration, interfacing, coding, installation, conversion of old data, and testing such as parallel processing. The capitalizable costs incurred during this stage include the direct costs of the materials and services needed to internally develop the software, particularly any payroll costs for employees who are directly associated with and who devote time directly to this application development stage. Conversely, any general, administrative, and overhead costs associated with this application development stage are not capitalized. Further, any costs incurred during the preliminary project stage and the post-implementation & operation stage are not capitalized. The activities associated with the preliminary project stage include conceptual formulation of alternatives, evaluation of alternatives, determination of the existence of needed technology, and final selection of alternatives. The activities associated with the post-implementation & operation stage typically include training and application maintenance.

### 3. Buildings and Building Improvements

**Buildings** are permanent structures erected above ground, together with fixtures attached to and forming a permanent part of the building, for the purpose of sheltering persons or personal property. The cost of buildings include all labor, materials, and professional services required to construct the building, and any other costs to put the building into its intended use.

**Building improvements** are major repairs, renovations, or additions to a building that increase the future service potential of the building and benefit future periods. The buildings and the improvements become one and inseparable. Examples of building improvements include major repairs, renovations, or additions such as addition of a new wing or a new air conditioning system.

### 4. Leasehold Improvements

**Leasehold Improvements** are improvements made by the lessee to leased property such as land and buildings. The lessee has the right to use such facilities and improvements during the life of the lease, but the improvements made to the property would revert to the lessor at the expiration of the lease. For this reason, the useful life of the leasehold improvement cannot be longer than the remaining lease term. The useful life of the leasehold improvement would be the lesser of 20 years (if a depreciable land improvement), 40 years (if a building improvement), or the remaining lease term. These improvements to leased property are treated as separate capital assets and are capitalized and depreciated if they are above the threshold for capitalization for the particular type of leased capital asset. Some examples of leasehold improvements would be new buildings or structures built on leased land and attachments or improvements made to existing leased buildings or structures.

### 5. Land and Land Improvements

**Land** is an inexhaustible asset that has an unlimited life and therefore is not depreciated.

**Land improvements** are those betterments, improvements, and site preparations that ready land for its intended use. Like the land itself, these improvements are inexhaustible and therefore not depreciated. Some examples of land improvements would be excavation, filling, grading, demolition of existing buildings, and removal or relocation of other property (telephone or power lines).

## **6. Depreciable Land Improvements**

**Depreciable land improvements** are defined as improvements made to land that have determinable estimated useful lives and deteriorate with use or passage of time. These improvements are built or installed to enhance or facilitate the use of the land for a particular purpose. Depreciable land improvements may include walking paths and trails, fences and gates, landscaping, sprinkler systems, fountains, and beaches. These are unlike nondepreciable land improvements and land since the useful life of the improvement is determinable.

## **7. Infrastructure**

**Infrastructure** is defined as long-lived capital assets associated with governmental activities that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Although these assets are long-lived, useful lives are assigned to these assets and they are depreciated.

## **8. Historical Treasures & Works of Art**

**Historical treasures & works of art** are items which are considered inexhaustible and held for public exhibition, educational purposes, or research in enhancement of public service instead of financial gain. Examples are paintings, sculptures, photography, maps, manuscripts, musical instruments, recordings, film, furnishings, artifacts, tools, weapons, and other memorabilia. Generally, collections of historical treasures & works of art will be considered inexhaustible, and would therefore not be depreciated. However, special rules apply for the capitalization of these assets. If a collection was capitalized as of June 30, 1999, the collection must continue to be capitalized, along with all additions to the collection. However, if the collection was not capitalized as of June 30, 1999, do not capitalize the collection.

### **9.1.1.4 Classes of capital assets and their useful lives are as follows**

Description of Asset and Examples	Useful Life
<b>Movable Property</b>	
Office furniture & fixtures Examples: desks, file cabinets, safes	10
Computers & peripheral equipment Examples: hard drives, printers, monitors, keyboards, disc drives, scanners	5
Computer software (not including internally developed software)	3
Internally developed software (colleges & universities only)	3
Office machinery & equipment other than computers: Examples: typewriters, calculators, adding machines, copiers and other duplicating equipment	6
Medical equipment	5
Automobiles	5
High mileage automobiles Examples: state police cars	3
Light general purpose trucks (< 13,000 lbs.)	5
Heavy general purpose trucks (13,000 lbs. or more)	6
Trailers and trailer mounted containers	6
Buses	9
Over-the-road tractor units	4
Airplanes	6
Assets used in research and experimentation	12



Printing and publishing equipment	11
Agricultural assets Examples: agricultural machinery & equipment, grain bins, and fences used for agricultural production	10
Dairy cattle, breeding	7
Horses, breeding or work	10
Horses, not breeding or work	12
Hogs, breeding	3
Sheep & goats, breeding	5
Radio & television broadcasting equipment (excluding towers, see infrastructure)	6
Construction equipment	6
Recreation assets used in the provision of entertainment services for a fee such as bowling alleys, billiards and pool halls, theaters, concert halls, and miniature golf courses.	10
Telephone central office equipment Examples: central office switchboards and related equipment	18
Telephone station equipment Examples: telephones, booths, teletypewriters, and private exchanges	10
<b>Buildings and Improvements</b>	
Buildings and improvements other than those listed below	40
Farm buildings other than single purpose structures Examples: Houses, barns, garages, warehouses	25

Single purpose agricultural or horticultural structures Examples: any building or enclosure used specifically for housing, raising, and feeding a particular type of livestock and it's produce and necessary equipment; greenhouses	15
Service station buildings and related land improvements	20
<b>Depreciable Land Improvements</b>	
Land improvements that are depreciable & other improvements other than buildings Examples: sidewalks, paths and trails, sprinkler systems, fences & gates, landscaping, fountains, and beaches that are not considered infrastructure (see infrastructure examples listed below)	20
<b>Infrastructure</b> Examples: interstates, highways, roads, bridges, tunnels, sidewalks, curbs, gutters, street signage, street lamps, traffic signals, drainage systems, water and sewer systems, lighting systems, railroad tracks, trestles, canals, waterways, spillways, locks, dams, levees, seawalls, boat ramps, boat docks, piers, wharfs, boardwalks, radio or television towers, airport runways and taxiways	40

\*Note - This table is only a list of some of the more common and probable assets that are in your possession. If there are any assets not on this list that may be required to be capitalized and depreciated, refer to IRS Publication 946 - Appendix B "Table of Class Lives and Recovery Periods" for further listing of assets.

#### 9.1.1.5 Method of depreciation

For simplicity and consistency, the straight-line depreciation method (cost divided by useful life) will be used for depreciation of all depreciable capital assets. In addition, it will be assumed that the capital assets will have no salvage value. A full year of depreciation will be taken in the year assets are placed in service. Regardless of the actual date an asset is placed into service, the asset is treated as being placed into service at the beginning of the fiscal year, allowing a full year's depreciation in

the year of acquisition. No depreciation will be taken in the year an asset is disposed of. Regardless of the actual date an asset is disposed of, the asset is treated as being disposed of at the beginning the fiscal year, allowing no depreciation to be taken in the year of disposal.

## **9.2 Capital Asset Reporting and Accounting Policies and Procedures**

The following policies and procedures outline how to arrive at the total capital assets net of accumulated depreciation that will be reported on the Statement of Net Assets, and the depreciation expense that will be reported in the Statement of Activities.

### **9.2.1 Background**

The total amount reported as capital assets for governmental activities will replace the reporting of general capital assets that were reported in the General Fixed Asset Account Group (GFAAG) of the CAFR. The capital assets of governmental activities in the Statement of Net Assets will also include the amount reported as general infrastructure assets for the state, and any internal service fund capital assets and assets under capital leases. The capital assets and depreciation for business-type activities and component units will come from each of those entity's individual annual financial reports and thus are not calculated by OSRAP. The amounts reported from these entities will be reported in the business-type activities columns of the Statement of Net Assets and Statement of Activities. For capital assets associated with governmental activities, depreciation will be calculated by OSRAP based on the straight-line method for the number of years of useful life assigned to each asset. OSRAP will rely on DOTD for the capitalization and depreciation calculations for general infrastructure assets under their responsibility.

The following are classes of capital assets for GASB 34 reporting:

#### **Nondepreciable capital assets:**

- Land
- Inexhaustible Land Improvements
- Construction in Progress
- Inexhaustible Historical Treasures and Works of Art

#### **Depreciable capital assets:**

- Movable Property
- Computer Software (Purchased for Internal Use)
- Computer Software Internally Developed (colleges and universities only)
- Library Books
- Buildings

Building Improvements  
Exhaustible Land Improvements  
Leasehold Improvements  
Infrastructure

### **9.2.2 Land Capitalization**

The following describes the procedure required to obtain reports for land to specifically identify the inventory of land that is to be accounted for centrally by OSRAP:

The starting point for recording land is the SLABS inventory report and previous GFAAG balances. All land will be capitalized and there are no thresholds or useful lives, and thus no depreciation calculations. We will simply record the amount that was previously reported in the GFAAG for land as the amount for the converted CAFR, then add and subtract from the balance using SLABS change reports at each year-end.

### **9.2.3 Buildings Capitalization and Depreciation**

The following describes the procedure required to obtain reports for buildings to specifically identify the inventory of buildings that are to be depreciated centrally by OSRAP:

The starting point for buildings is the SLABS report prescribed by OSRAP and obtained from the SLABS system through OIS. The SLABS report for 6/30 of any fiscal year-end is not a complete listing of all of the buildings because it will not include many of the buildings that are moved from Construction in Progress to Buildings. The SLABS report will only show what has been entered into SLABS by 6/30. The Construction in Progress activity will need to be analyzed to determine if any manual adjustments will need to be added to the SLABS inventory, and thus included in the depreciation calculations.

### **9.2.4 Movable Property Capitalization and Depreciation**

The following describes the procedure required to obtain reports for movable property to specifically identify the inventory items that are to be depreciated centrally by OSRAP:

Specific identification of individual assets that fall within our thresholds and useful lives is obtained by receiving an inventory from the LPAA system prescribed by OSRAP. This inventory report is obtained by OSRAP through OIS with the parameters and specific prescriptions for acquisition dates

and thresholds determined by OSRAP. A similar report must also be obtained from DOTD for movable property held by them that is not reported on the LPAA system. The same prescriptions are given to DOTD for this inventory report as for the LPAA inventory report.

## 9.2.5 Infrastructure Reporting and Accounting

### 9.2.5.1 Background

GASB Statement No. 34, paragraph 18 states that capital assets should be reported at historical cost. Paragraph 19 states that capital assets include infrastructure, defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples given include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. GASB Statement No. 34 breaks infrastructure assets into networks and sub-systems.

*A network* of assets is a group of assets that provide a particular type of service for a government. An example of a network of infrastructure assets would be a dam composed of a concrete dam, a concrete spillway, and a series of locks.

*A subsystem* of a network of assets is composed of all assets that make up a similar portion or segment of a network of assets. Interstate highways, state highways, and rural roads would each be considered a subsystem of the network of all of the roads of a government.

Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets for purposes of GASB Statement No. 34. Examples of buildings that may be an ancillary part of a network or subsystem include road maintenance structures such as shops and garages associated with a highway system and water pumping buildings associated with water systems.

### 9.2.5.2 Discussion of Alternatives

GASB Statement No. 34 gives two alternatives to choose from to account for infrastructure assets. The state has determined that the Depreciation alternative will be used by all entities that are reported in the CAFR.

(1) *Modified Approach*: The first alternative would be to use the “modified approach”. Under this approach, GASB Statement No. 34, paragraph 23, states that infrastructure assets that are part of a network or a subsystem of a network (described above) are not required to be depreciated as long as two requirements are met. Louisiana will not use this approach so no further discussion is provided.

(2) *Depreciation*: The second alternative is to depreciate the capitalized infrastructure assets, which is the approach that the state will use. Also, if a government no longer meets the requirements for using the Modified Approach, then the infrastructure assets must be depreciated over their estimated useful lives. The depreciation can be calculated for a class of assets, a network of assets, a subsystem of a network, or individual assets. To determine estimated useful lives, a government can use general guidelines obtained from professional or industry organizations, information for comparable assets of other governments, or internal information.

### 9.2.5.3 Discussion of Capitalization Requirements

The capitalization requirements for infrastructure assets applies under either alternative discussed above. GASB Statement No. 34 establishes different capitalization requirements for prospective reporting and retroactive reporting of infrastructure assets. Prospective reporting is required for all *general* infrastructure assets. However, retroactive reporting is only required for *major* infrastructure assets. Determination of a major infrastructure asset should be done at the network or subsystem level and should be based on the following criteria:

- (a) the cost or estimated cost of the *subsystem* is expected to be at least 5 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999, or
- (b) the cost or estimated cost of the *network* is expected to be at least 10 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999.

The retroactive reporting requirement applies to *major* infrastructure assets acquired, significantly reconstructed, or that received significant improvements in fiscal years ending after June 30, 1980. However, states are not prohibited from choosing an earlier cut off date.

### 9.2.5.4 Information Required for Implementation

For prospective reporting, general infrastructure assets must be reported at historical cost. For retroactive reporting of major infrastructure assets, if historical cost is not practical because of inadequate records, estimated historical cost may be used. This may be calculated by determining the current replacement cost of a similar asset and deflating this cost by using price-level indexes to the acquisition year. Existing support documents may contain enough information to derive the estimated historical cost; for example, bond documents, capital project fund expenditures, capital outlay expenditures in governmental funds, and engineering documents.

The state of Louisiana has chosen the alternative to depreciate the capitalized infrastructure assets. This is the most cost effective approach for reporting since there would not be any significant burden

involved in depreciating the infrastructure assets once they have been identified and capitalized. The schedules of capitalized infrastructure assets would simply include a column to compute the amount of annual depreciation.

### **9.2.5.5 Implementation of the Wooster Method for the State of Louisiana**

The infrastructure capitalization strategy adopted by the City of Kettering, Ohio (pop. around 60,000) is called the “Wooster Method”, named for the City of Wooster, Ohio. The city has been recording infrastructure in their CAFR for years, and this method of capitalizing infrastructure was instituted by the City of Kettering as follows:

1. No individual infrastructure assets are capitalized under this method.
2. Infrastructure is capitalized by recording the dollars spent (expenditures for infrastructure projects) by category by year. For example, recording a category of infrastructure such as “roads” from 1980 to 1999 would be accomplished by recording the expenditures of the budget category “roads” for those 20 years. The result would be that you would have 20 assets capitalized...”1980 roads”, “1981 roads”, and so on through the current year. Therefore, it would not be necessary to pick out separately every single road that was built from 1980 to 1999 to capitalize those roads.
3. The City of Kettering categories of infrastructure were chosen based on the capital outlay expenditure budget categories that were already there in the system. For instance, Kettering had 4 budget categories (streets, signal systems, drainage systems, and park improvements), therefore they had 4 categories of infrastructure.
4. The amounts to capitalize each year were acquired from the past year’s financial records, particularly the general ledgers from 1980 forward.
5. All costs of the infrastructure projects are included and capitalized together. There is no separation of expenditures for capitalizable maintenance, preservation, additions, improvements, or reconstructions.
6. Under this method, construction-in-progress is not tracked since the assets being recorded are each years’ expenditures, not each individual project. The progress of an on-going project is capitalized as part of the expenditures of a particular year.
7. To capitalize donated streets or roads, it is necessary to obtain engineering estimates of current replacement cost, and then deflate that to the year of donation using FHA tables. That amount would then be the amount to capitalize the donated asset.
8. The infrastructure is then depreciated by category using a composite depreciation rate for each category. Useful lives are acquired from the engineers for each category to determine the rate of depreciation for that category. Depreciation is calculated on all assets up to the year prior to the

year of implementation to get the up-to-date accumulated depreciation for those assets capitalized to meet the retroactive reporting requirements. For the current year and years thereafter, the depreciation expense is calculated on all assets using the composite depreciation rate for each category of assets to obtain the current year depreciation expense.

9. No assets are removed from the asset records until they are fully depreciated. For instance, the category of “1980 roads” would be removed only when that category was fully depreciated (the net capital asset is zero).
10. The City of Kettering prepared their 1999 CAFR using this method to capitalize infrastructure. The state auditor in Ohio is responsible for auditing their CAFR. However, this particular year it was contracted out to KPMG. Neither the state auditor nor KPMG had a problem using this method to capitalize infrastructure.

#### **9.2.5.6 Adaptation of the Wooster Method to the State of Louisiana**

The state of Louisiana uses the Wooster Method to capitalize the state’s infrastructure. The expenditures are accumulated each year in the capital projects funds and in state agencies that are part of the general fund (for state agencies that have infrastructure not under DOTD) and adjustments are made to these expenditures to determine the amount to capitalize each year as that year’s infrastructure asset. Enterprise funds that have infrastructure assets will have to begin capitalizing and depreciating these assets. Discrete component units using proprietary fund accounting likewise should already be capitalizing and depreciating any infrastructure assets. As all discrete component units will be required to use the BTA approach once GASB 34 is implemented, all will be required to capitalize and depreciate any infrastructure assets. Colleges and universities will be included in this requirement for discrete entities using the BTA approach under GASB 34.

##### **9.2.5.6.1 Department of Transportation and Development**

###### ***A. Prospective Reporting:***

Per GASB 34, paragraph 148, prospective reporting of “general infrastructure assets” in the statement of net assets is required for the year that GASB 34 is required to be implemented, or fiscal year 2002 for the state of Louisiana. General infrastructure assets are long-lived capital assets that are stationary in nature and can be preserved for a significantly greater number of years than most capital assets, and that are associated with and generally arise from governmental activities (GASB 34, footnote 66). General infrastructure assets that should be reported by the state are those for which the state has the primary management responsibility, whether or not the state has contracted with a third party to maintain the asset. The state has set a threshold of \$3,000,000 as the minimum amount for infrastructure assets to be reported prospectively. This threshold would be \$3,000,000 spent per year, per agency, under the Wooster Method, and would not mean each project as a



separately identified infrastructure asset.

1. Prospective reporting of general infrastructure assets using the Wooster Method involves analyzing the infrastructure expenditures of DOTD. DOTD's expenditures for roads and bridges are picked up by OSRAP in the Capital Outlay Escrow Fund from the 2G06 report for fund 051. The 2G06 expenditure figures cannot be used as is to determine the infrastructure expenses. Many local projects are funded through the capital outlay appropriation bill, and their expenditures must flow through DOTD, and thus are included in the total expenditures of fund 051. Also, land costs for right of ways are included in fund 051 expenditures. CCCD Trust has some expenditures that flow through fund 051, but these expenditures are removed when working the fund. The Sabine River Authority, a discrete component unit of the state, also has expenditures that flow through fund 051. These amounts would have to be removed for general infrastructure reporting for the state, and would have to be reported by the Sabine River Authority in its own separately issued statements.
2. To facilitate the prospective reporting requirements of infrastructure, DOTD has modified its general ledger to separate the expenditures of work projects into "ownership" expenditures – for projects (roads and bridges) actually owned by the state, and "non-ownership" expenditures – for projects not owned by the state, but for which the funding flows through DOTD. State-owned expenditures include engineering costs (outside engineering), utility costs (the cost of relocating the utilities of utility companies, considered part of the cost of construction), and construction costs, and are to be capitalized in one broad category called "Infrastructure". The cost of DOTD engineers are not capitalized as infrastructure, but instead, are part of DOTD operations as it is now.
3. DOTD expenditures for right-of-ways will be capitalized as land.
4. Construction of buildings that are part of the infrastructure system, such as maintenance buildings, have been appropriated in the capital outlay act under DOTD's appropriation. Accordingly, capital outlay expenditures also include the costs of these buildings. GASB 34, paragraph 19, states that buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets. Since these buildings are an ancillary part of the infrastructure, they are to be included in each year's costs that are capitalized as infrastructure. An analysis of the buildings in the State Land and Buildings System (SLABS) will be done by OSRAP to remove any ancillary infrastructure buildings from the SLABS amount for DOTD.
5. Amounts that are appropriated in the capital outlay acts that are called "contract maintenance" (or any other "maintenance" type item) are actually costs of the infrastructure per DOTD, and will be capitalized as infrastructure. True maintenance costs (grass-cutting, etc.) are appropriated in DOTD's operating budget, and will not be capitalized for prospective implementation of the infrastructure.

6. Bond payments for reimbursable bonds that are included in fund 051 expenditures will not be picked up for infrastructure reporting. These amounts are already removed from fund 051 expenditures for reporting the Capital Outlay Escrow Fund.
7. The capitalizable costs for each year's infrastructure asset will be the amounts spent from 7/1 through 6/30 of each fiscal year.

### ***B. Retroactive Reporting***

Per GASB 34, paragraph 148, retroactive reporting of all "major" general infrastructure assets in the statement of net assets is *encouraged* for the year that GASB 34 is required to be implemented, or fiscal year 2002 for the state of Louisiana. However, retroactive reporting is *required* by fiscal year 2006. The state of Louisiana plans to retroactively report all general infrastructure assets at the date of implementation of GASB 34, or for fiscal year 2002. Per GASB 34, paragraph 149, the state *must* report the estimated historical cost for major general infrastructure assets through fiscal years ending after June 30, 1980 (or fiscal year 1981). Each year of "infrastructure assets" will be depreciated for 40 years.

Per GASB 34, the determination of "major" general infrastructure assets should be done at the network or subsystem level, in which the cost or estimated cost of the subsystem is expected to be at least 5 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999 (or fiscal year 1999), or in which the cost or estimated cost of the network is expected to be at least 10 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999 (fiscal year 1999). Reporting of nonmajor networks is encouraged but not required (GASB 34, paragraph 156).

General capital assets are capital assets of the government that arise from governmental activities and result from the expenditure of governmental fund financial resources. They should not be reported in any governmental fund, but should be reported in the governmental activities column in the government-wide statement of net assets (GASB 34, paragraph 80). General capital assets will replace the general fixed asset account group, which will no longer be reported under GASB 34. The general fixed assets that were reported in the General Fixed Asset Account Group in the CAFR for fiscal year 1999 totaled \$2,159,011,000. The definition of a major infrastructure asset network would then be any network with a cost or estimated cost of at least \$2,159,011. A major infrastructure sub-system would be any sub-system with a cost or estimated cost of at least \$1,079,506.

The GASB 34 Implementation Guide Q&A #39 states that a government may account for dissimilar assets in networks or sub-systems, and that it may account for any of its capital assets in groupings that best suit its needs. Therefore, using the Wooster method, we propose that the state have one

“network” of infrastructure assets for each individual agency that has infrastructure. For DOTD this would consist of all state-owned and state-maintained roads and bridges that have been paid for or maintained by DOTD, as well as any roads and bridges donated to DOTD. This network could be broken down into sub-systems by year. For example, we would have “2001 infrastructure assets”, “2000 infrastructure assets”, “1999 infrastructure assets”, etc., as sub-systems of our network of “DOTD Infrastructure Assets”.

***Option Proposed for Retroactive Reporting:***

Ideally, DOTD would provide the historical cost by year of the assets, for at least as far back as is required, or fiscal year 1981. Using the Wooster Method for retroactive reporting, DOTD would have each year’s expenditures for infrastructure, so that we would have “1981 Infrastructure Assets”, etc., up until the date of implementation, and all of the years would be grouped together as a total for retroactive reporting.

We recommend this option above others that were considered. DOTD has actual historical cost for infrastructure expenditures as far back as fiscal year 1960. We would not have to pick up infrastructure prior to fiscal year 1963, as with a 40 year useful life, the fiscal year 1960, 1961, and 1962 assets would be fully depreciated.

1981 - forward

The information from the ledgers of DOTD for fiscal years 1981 forward provide a breakdown of engineering, utility, and construction costs (see spreadsheets from DOTD, pp. 1 & 2 of attachment). These amounts were added together to become the amount for each year’s infrastructure. Any amounts included in these figures for CCCD and the Sabine River Authority have been removed by DOTD, as these entities will have to report their infrastructure in their own separately issued financial reports. Amounts for local projects have also been removed from the totals. (See page 2 of attachment from DOTD for amounts removed.) Fiscal years 1983 and 1984 included a ledger category called “Maintenance Expenditures”. These amounts were not included in the totals picked up as infrastructure. As noted previously, all other items in the capital outlay acts described as “maintenance” are considered part of the cost of the infrastructure, per DOTD, and not true maintenance. True maintenance is appropriated in DOTD’s operating budget. The amounts for right of ways are separated in the general ledgers, and will be capitalized as land.

1963 – 1980

The information in DOTD’s ledgers for this time frame was not broken down to separate the costs of construction from the cost of the right of ways. If we pick up infrastructure for this time period (not required by GASB 34), an estimate of the cost of right of ways would have to be performed. Since

GASB 34 does not require infrastructure to be picked up prior to fiscal year 1981, and a clear breakdown of the data between the costs of construction and the costs of right of ways does not exist, the state of Louisiana does not plan to pick up infrastructure prior to 1981.

#### **9.2.5.6.2 Crescent City Connection Division**

The Crescent City Connection Division was created to construct, maintain, and operate bridges and ferries across the Mississippi River at New Orleans. The CCCD is controlled by the Department of Transportation and Development, and is reported as a blended component unit of the state. The CCCD – Capital Projects Fund is reported in the CAFR as one of the state's Capital Projects Funds. CCCD's capital outlay expenditures flow through DOTD. These expenditures will be removed from DOTD's expenditures reported as infrastructure. CCCD will have to report its infrastructure in its own separately issued financial report. The state will pick up the CCCD capital projects fund infrastructure off of this separately issued financial report for the government-wide statements.

##### ***A. Prospective Reporting***

Since the CCCD has an October 31<sup>st</sup> year end, its infrastructure expenditures for its fiscal year November 1<sup>st</sup>, 2000, through October 31<sup>st</sup>, 2001, will need to be included in the CAFR for 2002. The \$3,000,000 threshold would apply to CCCD's expenditures each year using the Wooster Method for prospective reporting.

##### ***B. Retroactive Reporting***

CCCD will have to determine which method of retroactive reporting is most appropriate, based on the extent of records it has. As noted above, GASB has stated that a different method for retroactive reporting can be used, other than the method used for prospective reporting. If CCCD does not have actual historical cost records by year for infrastructure to use the Wooster Method, one of the methods suggested under DOTD could possibly be used to estimate the value of the infrastructure, such as current replacement cost.

#### **9.2.5.6.3 State Agencies with Infrastructure not reported through DOTD**

State agencies may have infrastructure assets that are not reported through DOTD where most of the state's infrastructure is reported. As noted above, the state has set the threshold at \$3 million for infrastructure capitalization. This threshold would be per agency, per year.

##### ***A. Prospective Reporting***

Each agency with infrastructure not reported through DOTD (Hospitals; Corrections; Wildlife and Fisheries; Culture, Recreation, & Tourism; etc.) would be required to track its infrastructure expenditures beginning in fiscal year 2002 to determine if the expenditures would be above the \$3 million threshold. The amount of infrastructure expenditures would be required to be disclosed to OSRAP, perhaps as an additional note disclosure in the AFR, in order for OSRAP to report the

amounts in the CAFR, beginning in fiscal year 2002.

### ***B. Retroactive Reporting***

State agencies that have indicated on the Statewide Awareness Survey that they have infrastructure assets that are not reported by DOTD will have to review their records to determine what information is available to retroactively report infrastructure. As discussed above under DOTD, each such agency would have their own network of infrastructure assets consisting of all of their roads, etc. These networks would be broken down into the same sub-systems as for DOTD – “2001 infrastructure assets”, etc.

OSRAP requires that any state agency with infrastructure expenditures of at least \$3 million in any given year from fiscal year 1981 forward report this value to OSRAP for the fiscal year 2002 implementation. Agencies that determine that infrastructure will have to be reported retroactively could use one of the methods suggested under DOTD, such as current replacement cost, if the historical cost data is not available.

#### **9.2.5.6.4 Levee Districts Infrastructure**

Levees are continuous dikes or ridge for confining the irrigation areas of land to be flooded. They act as embankment for preventing flooding, or as a river landing place.

The composition of a constructed levee may include:

1. Flood gates
2. Embankment (made of earth, clay or mud)
3. Floodwall- some with reinforced metal, concrete or pipes
4. Stop log structure
5. Valves
6. Pump Stations
7. Drainage channels
8. Outfall canals
9. Drainage systems
10. Tunnels.

According to GASB 34, Q & A number 36 defines infrastructure assets as “- Long lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets, and that are normally stationary in nature (paragraph 19). Examples include: roads, bridges, tunnels, drainage systems, water and sewerage systems, dams and street lighting systems. Buildings, that are an ancillary part of a network of infrastructure assets are also considered as infrastructure. E.g., water-pumping buildings associated with water systems: rest area facilities associated with turnpikes etc., Q&A #37

In light of this definition, levees will be considered as infrastructure assets just like dams, roads etc. They are large long-lived assets that provide service to the public. Like roads, they do not need to have similar structural characteristics to be considered as infrastructure assets; e.g., there are different types of roads; i.e., dirt, gravel asphalt etc. with different structural compositions, just as there are different types of levees with different structural compositions.

The right of way, or land underneath the levee, must not be capitalized as infrastructure asset, but must be recorded on the books as an asset if owned and must not be depreciated.

Another subject of discussion raised has been the ownership of the levee. Does the district own the levee, while not owning the land? According to the US Corp of Engineers, the districts own most of the levees in Louisiana. Some of the districts own the land as well as the levees, while in some cases the districts may have a perpetual easement of the land for flood control protection. According to GASB, the litmus test for ownership, absence a clear title to an infrastructure asset e.g., roads, is applicable to levees. If the levee district has the on-going responsibility for maintaining the levee and the land that the levee is on, ownership is assumed for recording the levee as infrastructure, and land as an asset on the books.

In OSRAP's capitalization and depreciation policy guide, we defined infrastructure to include levees, drainage systems, canals, waterways etc. To be uniform, it would behoove the state to have a policy that defines the various levee types as infrastructure, regardless of its structural composition and location in the state. A useful life of 40 years is also recommended for depreciating these assets. The straight-line method is recommended as the depreciation method, but since these entities are component units, flexibility of choosing their own depreciating method can be accommodated.

There are various methods for determining costs of infrastructure assets. These include: historical cost if available, estimated historical costs or replacement cost (with deflation using price indexes). Any of these methods could be used by the districts to value the costs of the levees. Corps of Engineers has most of the cost figures for federal reporting and can be a starting point for obtaining costs of the levees that the corps built and turned over to the districts.

According to GASB 34 paragraph 149 " if determining actual historical cost of the general infrastructure assets is not practical because of inadequate records, governments should report the estimated historical cost for major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending June 30<sup>th</sup>, 1980". This 20-year window could facilitate obtaining the cost of these levees.

The threshold for capitalization of levees as infrastructure is recommended for \$3,000,000. This will also include any major repairs for this value per year.

### 9.2.6 Computer Software

The following describes the capitalization and depreciation policy for computer software purchased or internally developed for internal use:

Computer software purchased for internal use falls under the capital assets capitalization requirements. The GASB does not specifically address the issue of capitalization of internally developed computer software for internal use, and therefore will not be capitalized by the state of Louisiana in the implementation of GASB Statement 34, except for colleges and universities which are required by NACUBO to capitalize internally developed software for internal use (NACUBO Advisory Report 99-7).

To provide guidance in capitalizing and depreciating computer software, the following policy will be followed by all state agencies. The policy is as follows:

- Except for colleges and universities that are required by NACUBO to capitalize internally developed software for internal use (NACUBO Advisory Report 99-7), the state of Louisiana will not capitalize internally developed software for internal use.
- Computer software that is purchased for internal use will be capitalized.
- For computer software required to be capitalized, the threshold has been set at \$1,000,000.
- The computer software required to be capitalized that meets or exceeds the threshold will be depreciated over a three year useful life using the straight-line method.

Following NACUBO's recommendation, colleges and universities are to follow AICPA Statement of Position 98-1 (SOP 98-1) "Accounting for Costs of Computer Software Developed or Obtained for Internal Use" which provides guidance for capitalization of the costs associated with the internal development of computer software. These guidelines also apply to upgrades and enhancements of existing software if the modifications result in additional functionality (enables the software to perform functions or tasks that it was previously unable to perform).

According to SOP 98-1, internally developed computer software for internal use must have the following characteristics:

- The software is developed internally or modified solely to meet the entity's internal needs.
- During the software's development or modification, no substantive plan exists or is being developed to market it externally.

To identify which costs would be capitalized in the process of internally developing software, it is necessary to identify three stages of software development discussed in SOP 98-1. The three stages are the preliminary project stage, the application development stage, and the post-implementation/operation stage.

The preliminary project stage is characterized by activities associated with the conceptual formulation of alternatives, evaluation of alternatives, determination of the existence of needed technology, and final selection of alternatives. The costs incurred during the preliminary project stage are not capitalized. Basically, capitalization of costs should begin when the preliminary project stage is complete and management has authorized the continued funding of the software project which is probable to be completed and used to perform its intended function.

Costs that may be capitalized associated with the purchase or development of software include those incurred during what is called the application development stage. Activities that occur during this stage include configuration, interfacing, coding, installation, conversion of old data, and testing such as parallel processing. The capitalizable costs incurred during this stage include the purchase price of the software or the materials needed to internally develop the software, and cost of services needed after purchase of the software or during internal development. Any payroll costs for employees who are directly associated with and who devote time directly to the software development stage are also costs that would be capitalized. Conversely, any general and administrative costs and overhead costs associated with the software development stage are not costs that are capitalized.

Capitalization of costs should cease when the software project is substantially complete and ready for its intended use, which is at the end of the application development stage and the beginning of the post-implementation/operation stage. The costs incurred during this final post-implementation/operation stage are not capitalized. This stage is characterized by activities such as training and application maintenance.

An additional issue arises when the purchase or development of software is intended to replace existing internal use computer software that is capitalized but not yet fully depreciated. The remaining cost of the software that is not yet fully depreciated and is being replaced should be charged to expense when the new software is ready for use.

### **9.2.7 Historical Treasures & Works of Art**

The following describes the capitalization and depreciation policy and procedures needed to define collections of works of art, historical treasures, and similar assets and identify the collections



statewide to apply the capitalization and depreciation requirements of GASB Statement 34:

### Capitalization Criteria

GASB Statement 34 states that governments should capitalize works of art, historical treasures, and similar assets at their historical cost or fair value at the date of donation (estimated if necessary) if they are held as a collection. Governments are encouraged, **but not required**, to capitalize collections that are a) held for public exhibition, education, or research in furtherance of public service, rather than financial gain; (b) protected, kept unencumbered, cared for, and preserved; and (c) subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

This exemption does not apply to collections already capitalized as of June 30, 1999, and all future additions to these collections, even if they meet the above conditions for exemption from capitalization. Accordingly, any collections that meet this criteria cannot be taken off of an entity's books at implementation of GASB Statement 34 if they are already being capitalized.

For collections not capitalized, note disclosures must provide a description of the collection and the reasons these assets are not capitalized.

### Depreciation Criteria

If collections are not capitalized, then they will also not be depreciated. When collections are capitalized, the following criteria applies for depreciation. GASB Statement 34 states that capitalized collections which are exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, **should be depreciated** over their estimated useful lives. The paragraph also states that **depreciation is not required** for collections which are inexhaustible. For those collections that are capitalized and depreciated, note disclosures should be made to provide detail about any such collections reported in the statement of net assets, divided into major classes, as well as between those associated with governmental activities and those associated with business-type activities. Also, the disclosures should include (1) beginning and end-of-year balances, with accumulated depreciation presented separately; (2) capital acquisitions; (3) sales or other dispositions; and (4) current-period depreciation expense; with disclosure of the amounts charged to each of the functions in the statement of activities.

### Revenue and Expense Recognition

Governments should recognize as revenues any donations of works of art, historical treasures, and similar assets in accordance with GASB Statement No. 33. When donated collection items are added to non-capitalized collections, governments should recognize program expense equal to the

amount of revenues recognized.

### Policy

GASB Statement No. 34 does not define what or how many works of art, historical treasures, or similar assets constitute a “collection”. Therefore, the definition is left to professional judgment, but must be applied consistently. It is OSRAP’s policy that the State of Louisiana define collections of works of art, historical treasures, and similar assets as one or more items which are considered inexhaustible and held for public exhibition, educational purposes, or research in enhancement of public service instead of financial gain.

In order for the State of Louisiana to be exempt from the capitalization requirement of GASB Statement 34 for works of art, historical treasures, and similar assets, all budgetary entities of the state holding such assets should have in place a policy concerning those assets. These policies should include language relating that all collection items donated to the entity or purchased with state funds are to be kept unencumbered, cared for, and preserved, and that all proceeds from the sale (if any) of such collection items are to be used to acquire other items for collection. Agencies holding works of art, historical treasures, and similar assets should have these types of policies in place to be able to meet these capitalization requirements. Further, we encourage all non-budgetary entities reporting under the state who possess these types of assets to also have in place such a policy.

The following is a listing of some of the possible historical treasures, works of art, and similar assets that certain entities may have. It is not an exhaustive list, and each agency should be diligent in identifying collections that would need to be reported. As with reporting of other assets, the Office of Statewide Reporting and Accounting Policy will be available for the entities to ask questions and receive any assistance needed to properly account for them.

<b>Collection Capitalization Policy Summary</b>		
<b>Collection</b>	<b>Capitalization Policy</b>	<b>Depreciation Policy</b>
Paintings, Works of Art on Paper, Photography, Maps, Manuscripts, Libraries, Musical Instruments, Recordings, Film, Furnishings, Artifacts, Textiles, Tools, Weapons, and other Memorabilia located at various state museums and office	If capitalized as of June 30, 1999, the collection must continue to be capitalized, along with all additions to the collection.  However, if not capitalized as of June 30, 1999, <u>do not</u>	If not capitalized, depreciation is not applicable.  If capitalized as of June 30, 1999, depreciation is not required since these assets are considered inexhaustible.

buildings.	capitalize the collection.	If capitalized, amount will be reported with any other non-depreciable capital assets in the statement of net assets.
	Each budgetary entity is responsible for determining if its collection assets have been capitalized as of June 30, 1999.	
Monuments and Statues on display at various sites around the state.	Same as above.	Same as above.

### 9.2.8 Surplus Property

The following describes how fixed assets are to be tracked from the point they leave the state facility or agency, to surplus property and surplus property warehouse, to the final sale and disposition.

The capitalization threshold for fixed assets should be set at \$5,000 for reporting purposes only which most of the states currently do. For statewide inventory purposes, the threshold is recommended to be set at \$1,000 with the exception of sensitive items less than \$1,000 which may include weapons, vehicles, computer equipment, copiers, and other electronic equipment that may fall into this category. Government Financial Officers Association (GFOA) states that control over noncapitalized fixed assets should be established and maintained at the departmental level. The individual agencies should inventory their own assets, capitalized and noncapitalized, in their possession regardless of cost. This inventory will be subject to an annual inventory count which will provide adequate controls and recording of assets in compliance with state policies. The inventory system kept by the agencies can be an in-house inventory system. The agencies will then verify all assets in their possession of only \$1,000 or more, with the exception of the sensitive items, in the statewide inventory data base by updating the system by adding the new assets or disposals of assets as currently done.

The same policies will remain in effect as to disposition of all fixed assets regardless of cost. This will continue to keep LA Property Assistance Agency in control of all fixed asset dispositions which will prevent the mishandling of the state's assets by the agencies. When an agency decides to dispose of an asset, the agency will submit a form to LA Property Assistance Agency (Surplus Property). This generates a hard copy for the agency's records. When Surplus Property receives the form stating the item and all details of the asset, Surplus Property then tags the item and inventories the asset. It will then go through the regular process of asset disposal by selling and transferring the asset to another agency, selling to a non-profit organization, or putting the asset up for auction.

After Surplus Property disposes the asset, they will submit a percentage of the sale to the agency, only if entitled to it, and the proper form showing the disposal of the asset. The agency will then remove the asset from their inventory records, both in-house and on the main inventory system.

